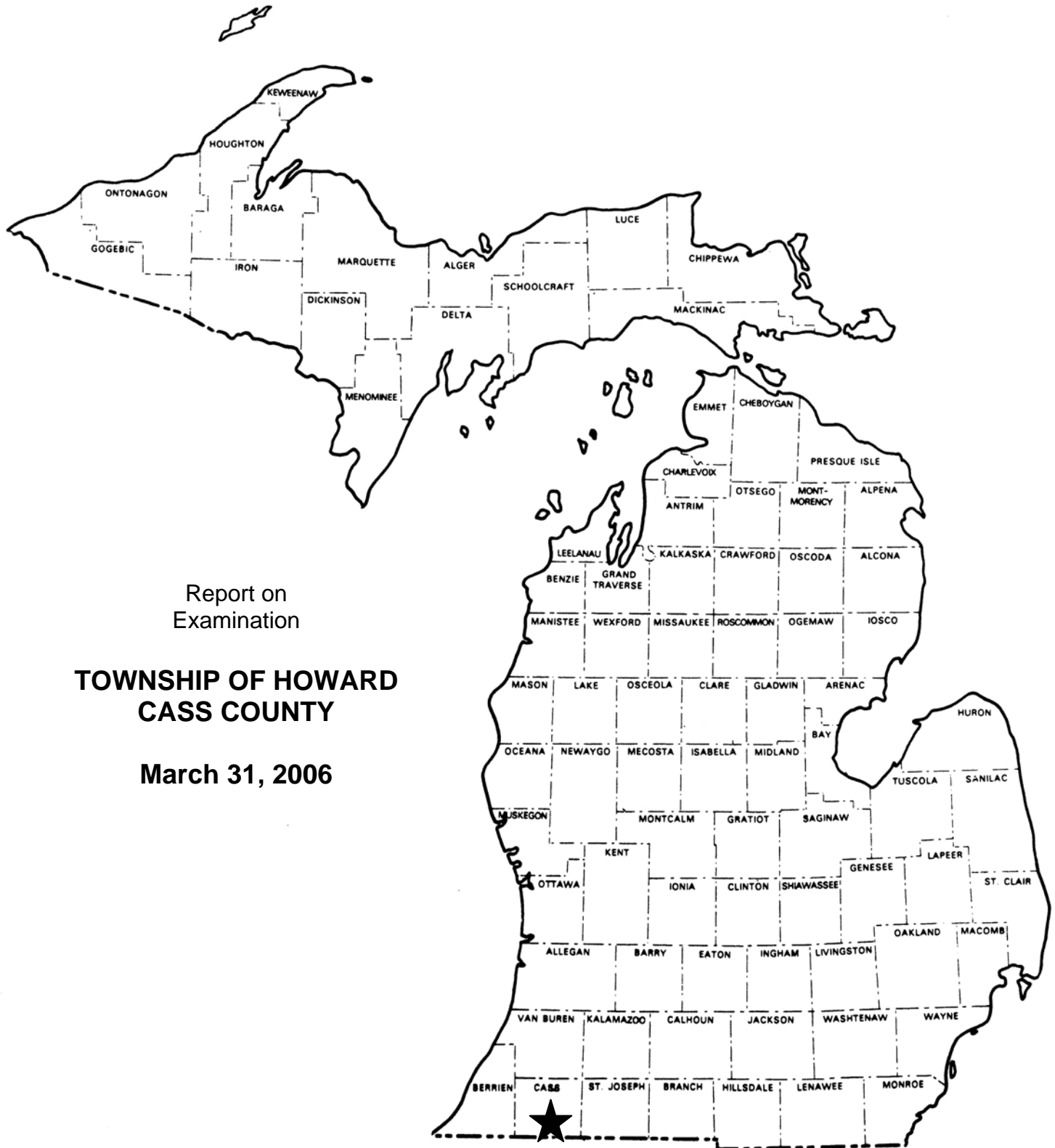


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**TOWNSHIP OF HOWARD**  
**CASS COUNTY**

**March 31, 2006**

HOWARD TOWNSHIP--CASS COUNTY

TOWNSHIP BOARD

Michael Sutherland  
Supervisor

Shirley Tuttle  
Clerk

Shaune Timm  
Treasurer

George Johnson  
Trustee

Irving Frost  
Trustee

Mike Richmond  
Trustee

Shelby Farmer  
Trustee

TOWNSHIP POPULATION--2000  
6,309

TAXABLE VALUATION—2005  
\$143,434,758



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

July 7, 2006

Howard Township Board  
1345 Barron Lake Road  
Niles, Michigan 49120

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard Township, Cass County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Howard Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard Township, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated July 7, 2006, on our consideration of Howard Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing

Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the Budgetary Comparison for the General Fund (Major Fund) included in Exhibit I are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Howard Township's basic financial statements. The accompanying supplementary information and schedules, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The individual statements of revenues and expenditures for the General Fund and combining statements related to the fiduciary funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

The combining financial statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# HOWARD TOWNSHIP--CASS COUNTY

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## HOWARD TOWNSHIP--CASS COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### *Using this Annual Report*

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township, as a whole, and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

#### *The Township as a Whole*

The Township's net assets increased \$187,756 from a year ago for the governmental activities due to decreasing expenses related to road projects, policing services, and the purchase of a new park tractor and fire truck. In contrast, the business-type activities decreased \$24,090, primarily as a result of paying the interest on the sewer bond. In a condensed format, the table below shows the activity:

	Governmental Activities 2005	Governmental Activities 2006	Favorable (Unfavorable) Difference	Percent
Current Assets	\$ 747,310	\$ 680,487	\$ (66,823)	-8.94%
Noncurrent Assets	446,171	687,233	241,062	54.03%
Total Assets	1,193,481	1,367,720	174,239	14.60%
Current Liabilities	51,311	43,794	(7,517)	-14.65%
Long-Term Liabilities	18,000	12,000	(6,000)	-33.33%
Total Liabilities	69,311	55,794	(13,517)	-19.50%
Net Assets				
Invested in Capital Assets				
Net of Debt	411,537	664,144	252,607	61.38%
Restricted	230,865	145,932	(84,933)	-36.79%
Unrestricted (Deficit)	481,758	501,850	20,092	4.17%
Total Net Assets	\$1,124,170	\$1,311,926	\$187,756	16.70%

# HOWARD TOWNSHIP--CASS COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities 2005	Business-Type Activities 2006	Favorable (Unfavorable) Difference	Percent
Current Assets	\$ 925,615	\$ 933,428	\$ 7,813	0.84%
Noncurrent Assets	<u>1,760,165</u>	<u>1,653,262</u>	<u>(106,903)</u>	<u>-6.07%</u>
Total Assets	<u>2,685,780</u>	<u>2,586,690</u>	<u>(99,090)</u>	<u>-3.69%</u>
Long-Term Liabilities	<u>975,000</u>	<u>900,000</u>	<u>(75,000)</u>	<u>-7.69%</u>
Total Liabilities	<u>975,000</u>	<u>900,000</u>	<u>1,875,000</u>	<u>192.31%</u>
Net Assets				
Invested in Capital Assets				
Net of Debt	370,500	411,000	40,500	10.93%
Unrestricted (Deficit)	<u>1,340,280</u>	<u>1,275,690</u>	<u>(64,590)</u>	<u>-4.82%</u>
Total Net Assets	<u>\$1,710,780</u>	<u>\$1,686,690</u>	<u>\$ (24,090)</u>	<u>-1.41%</u>

The following table shows the changes of the net assets as of the current date, as this is the first year of the Township's conversion to GASB No. 34 provisions.

	Governmental Activities 2005	Governmental Activities 2006	Favorable (Unfavorable) Difference	Percent
Program Revenues				
Charges for Services	\$ 66,342	\$ 83,129	\$ 16,787	25.30%
Operating Grants and Contributions	11,934	37,748	25,814	216.31%
Capital Grants and Contributions	50,000		(50,000)	-100.00%
General Revenues				
Property Taxes	159,714	169,791	10,077	6.31%
State-Shared Revenues	444,215	436,811	(7,404)	-1.67%
Unrestricted Investment Earnings	7,496	20,108	12,612	168.25%
Other Revenue	<u>16,882</u>	<u>2,919</u>	<u>(13,963)</u>	<u>-82.71%</u>
Total Revenues	<u>756,583</u>	<u>750,506</u>	<u>(6,077)</u>	<u>-0.80%</u>
Program Expenses				
General Government	272,555	285,893	13,338	4.89%
Public Safety	250,127	276,382	26,255	10.50%
Public Works	121,155	49,274	(71,881)	-59.33%
Community and Economic Development	12,451	11,649	(802)	-6.44%
Recreation and Culture	54,461	54,220	(241)	-0.44%
Interest on Long-Term Debt	<u>1,200</u>	<u>902</u>	<u>(298)</u>	<u>-24.83%</u>
Total Expenses	<u>711,949</u>	<u>678,320</u>	<u>(33,629)</u>	<u>-4.72%</u>
Change in Net Assets	<u>\$ 44,634</u>	<u>\$ 72,186</u>	<u>\$ 27,552</u>	<u>61.73%</u>

## HOWARD TOWNSHIP--CASS COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	Favorable (Unfavorable) Difference	Percent
Program Revenues				
Charges for Services	\$ 74,325	\$ 80,560	\$ 6,235	7.74%
General Revenues				
Unrestricted Investment Earnings	<u>43,762</u>	<u>56,633</u>	<u>12,871</u>	<u>22.73%</u>
Total Revenues	<u>118,087</u>	<u>137,193</u>	<u>19,106</u>	<u>13.93%</u>
Program Expenses				
Water and Sewer	<u>153,838</u>	<u>161,283</u>	<u>7,445</u>	<u>4.62%</u>
Total Expenses	<u>153,838</u>	<u>161,283</u>	<u>7,445</u>	<u>4.62%</u>
Change in Net Assets	<u><u>\$ (35,751)</u></u>	<u><u>\$ (24,090)</u></u>	<u><u>\$ 11,661</u></u>	<u><u>-48.41%</u></u>

#### **Governmental Activities**

The Township's total governmental revenues increased primarily due to the continuing increase in the Township's tax base and interest earned. Expenditures also decreased by \$82,482 due to the decrease in road and police services provided.

	Governmental Funds <u>2005</u>	Governmental Funds <u>2006</u>	Favorable (Unfavorable) Difference	Percent
Revenues				
Taxes and Penalties	\$ 159,714	\$ 169,791	\$ 10,077	6.31%
Licenses and Permits	52,804	61,191	8,387	15.88%
Federal and State Grants	491,120	442,601	(48,519)	-9.88%
Charges for Services	2,899	7,462	4,563	157.40%
Fines and Forfeits	961	2,763	1,802	187.51%
Interest and Rentals	15,542	31,949	16,407	105.57%
Other Revenue	<u>29,088</u>	<u>40,294</u>	<u>11,206</u>	<u>38.52%</u>
Total Revenues	<u>752,128</u>	<u>756,051</u>	<u>3,923</u>	<u>0.52%</u>
Program Expenses				
General Government	269,741	278,792	9,051	3.36%
Public Safety	246,965	237,910	(9,055)	-3.67%
Public Works	121,155	49,274	(71,881)	-59.33%
Community and Economic Development	12,451	11,649	(802)	-6.44%
Recreation and Culture	52,426	44,853	(7,573)	-14.45%
Capital Outlay	187,901	185,977	(1,924)	-1.02%
Debt Service	<u>7,200</u>	<u>6,902</u>	<u>(298)</u>	<u>-4.14%</u>
Total Expenses	<u>897,839</u>	<u>815,357</u>	<u>(82,482)</u>	<u>-9.19%</u>
Change in Fund Balance	<u><u>\$ (145,711)</u></u>	<u><u>\$ (59,306)</u></u>	<u><u>\$ 86,405</u></u>	<u><u>-59.30%</u></u>



## HOWARD TOWNSHIP--CASS COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Business-Type Activities**

The Township's business-type activities consist of the Sewer Fund. We provide sewer to approximately 35% of Township residents, which is provided in conjunction with the City of Niles. The loss, as stated above, is due to the annual bond interest payment made by the Township.

	Enterprise Funds 2005	Enterprise Funds 2006	Difference	Percent
Revenues				
Charges for Services	\$ 74,325	\$ 80,560	\$ 6,235	8%
Interest and Rentals	11,588	28,666	17,078	147%
Special Assessment Interest	32,174	27,967	(4,207)	-13%
Total Revenues	118,087	137,193	19,106	16%
Program Expenses				
Operating Expenses	59,938	71,208	11,270	19%
Depreciation	34,500	34,500	-	0%
Interest on Debt	59,400	55,575	(3,825)	-6%
Total Expenses	153,838	161,283	7,445	5%
Change in Fund Balance	\$ (35,751)	\$ (24,090)	\$ 11,661	-33%

#### **The Township's Funds**

Our analysis of the Township's major funds are listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 includes the General Fund and the Sewer Fund.

The General Fund pays for most of the Township's governmental services. The most significant are for general government activities and public safety activities (fire department and police protection), which incurred expenses of approximately \$278,792 and \$237,910, respectively, in 2006. These services are supported by the operating millage and State shared revenues.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant changes were for the purchase of the new park tractor and the fire truck and increasing attorney costs due to lawsuits.

## HOWARD TOWNSHIP--CASS COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Capital Asset and Debt Administration**

At the end of 2006, the Township had \$1,987,144 invested in a broad range of capital assets, including buildings, equipment, vehicles, and the sewer system. To pay for the majority of these capital assets, especially the sewer system, the Township entered into various debt obligations totaling \$912,000.

#### **Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2006 will remain primarily the same as the Township expects; revenues to remain constant and a decrease in expenses as no capital improvements are planned this year.

#### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk's Office at 1345 Barron Lake Road, Niles, Michigan 49120.

**HOWARD TOWNSHIP--CASS COUNTY  
GOVERNMENT-WIDE STATEMENT  
OF NET ASSETS  
March 31, 2006**

**EXHIBIT A**

<b><u>ASSETS</u></b>	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and Cash Equivalents	\$ 570,259	\$ 935,325	\$1,505,584
Delinquent Taxes Receivable	12,057		12,057
Delinquent Special Assessments Receivable	1,678	7,451	9,129
Internal Balances	14,688	(14,688)	-
Due From State	81,805		81,805
Due From Other Units of Government		5,340	5,340
Total Current Assets	680,487	933,428	1,613,915
Noncurrent Assets			
Special Assessment Receivable	11,089	342,262	353,351
Capital Assets--Net of Accumulated Depreciation	676,144	1,311,000	1,987,144
Total Noncurrent Assets	687,233	1,653,262	2,340,495
Total Assets	\$1,367,720	\$2,586,690	\$3,954,410
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current Liabilities			
Accounts Payable	\$ 27,711		\$ 27,711
Accrued Liabilities	8,204		8,204
Escrow Payable	7,879		7,879
Total Current Liabilities	43,794	\$ -	43,794
Long-Term Liabilities			
Notes Payable--Due Within One Year	6,000		6,000
Notes Payable--Due in More Than One Year	6,000		6,000
Bonds Payable--Due Within One Year		100,000	100,000
Bonds Payable--Due in More Than One Year		800,000	800,000
Total Noncurrent Liabilities	12,000	900,000	912,000
Total Liabilities	55,794	900,000	955,794
Net Assets			
Investment in Capital Assets--Net of Related Debt Restricted for	664,144	411,000	1,075,144
Improvement Capital	94,140		94,140
Tiara Trails	14,320		14,320
Building Department Permit	37,472		37,472
Unrestricted	501,850	1,275,690	1,777,540
Total Net Assets	\$1,311,926	\$1,686,690	\$2,998,616

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2006**

**EXHIBIT B**

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>		
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activites	Business-Type Activities	Total
Governmental Activities						
General Government	\$ 285,893	\$ 24,267	\$ 5,639	\$ (255,987)		\$ (255,987)
Public Safety	276,382	42,584	26,197	(207,601)		(207,601)
Public Works	49,274	6,413	5,912	(36,949)		(36,949)
Community and Economic Development	11,649	8,615		(3,034)		(3,034)
Recreation and Culture	54,220	1,250		(52,970)		(52,970)
Interest on Long-Term Debt	902			(902)		(902)
Total Governmental Activities	678,320	83,129	37,748	(557,443)	\$ -	(557,443)
Business-Type Activites						
Sewer	161,283	80,560			(80,723)	(80,723)
Total	\$ 839,603	\$ 163,689	\$ 37,748	\$ (557,443)	\$ (80,723)	\$ (638,166)
General Revenues						
Property Taxes				\$ 169,791		\$ 169,791
State-Shared Revenues				436,811		436,811
Unrestricted Investment Earnings				20,108	\$ 56,633	76,741
Other				2,919		2,919
Total General Revenues--Special Items and Transfers				629,629	56,633	686,262
Change in Net Assets				72,186	(24,090)	48,096
Net Assets--Beginning				1,124,170	1,710,780	2,834,950
Restatement to Net Assets				115,570		115,570
Restated Net Assets--Beginning				1,239,740	1,710,780	2,950,520
Net Assets--Ending				\$ 1,311,926	\$ 1,686,690	\$ 2,998,616

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2006**

**EXHIBIT C**

	General	Non-Major	Total Governmental Funds
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 423,511	\$ 138,313	\$ 561,824
Delinquent Taxes Receivable	12,057		12,057
Special Assessments Receivable		11,089	11,089
Delinquent Special Assessments Receivable		1,678	1,678
Due From State	81,805		81,805
Due From Other Funds	27,328		27,328
	<hr/>		
Total Assets	\$ 544,701	\$ 151,080	\$ 695,781
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
Liabilities			
Accounts Payable	\$ 26,768	\$ 943	\$ 27,711
Due to Other Funds		4,205	4,205
Accrued Liabilities	8,204		8,204
Escrow Payable	7,879		7,879
Deferred Revenue	10,000	11,089	21,089
	<hr/>		
Total Liabilities	52,851	16,237	69,088
Fund Equity			
Fund Balances			
Reserved for			
Tiara Trails		3,231	3,231
Public Improvement		94,140	94,140
Building Department Permit		37,472	37,472
Unreserved--Undesignated	491,850		491,850
	<hr/>		
Total Fund Equity	491,850	134,843	626,693
	<hr/>		
Total Liabilities and Fund Equity	\$ 544,701	\$ 151,080	\$ 695,781
	<hr/>		
Fund Balances--Total Governmental Funds			\$ 626,693

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	676,144
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures.	16,634
Revenue that does not provide current financial resources are not reported as revenue in the funds.	4,455
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(12,000)
Net Assets of Governmental Activities	<u>\$1,311,926</u>

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2006**

**EXHIBIT D**

	General	Non-Major	Total Governmental Funds
Revenues			
Taxes and Penalties	\$ 169,791		\$ 169,791
Licenses and Permits	24,120	\$ 37,071	61,191
State Grants	441,623	978	442,601
Charges for Services	7,462		7,462
Fines and Forfeits	2,763		2,763
Interest and Rentals	25,508	6,441	31,949
Other Revenue	27,092	13,202	40,294
Total Revenues	698,359	57,692	756,051
Expenditures			
Current			
General Government	278,792		278,792
Public Safety	209,535	28,375	237,910
Public Works	42,961	6,313	49,274
Community and Economic Development	11,649		11,649
Recreation and Cultural	44,853		44,853
Capital Outlay	185,977		185,977
Debt Service			
Principal		6,000	6,000
Interest		902	902
Total Expenditures	773,767	41,590	815,357
Excess of Revenues Over (Under) Expenditures	(75,408)	16,102	(59,306)
Other Financing Sources (Uses)			
Interfund Transfers In	95,500		95,500
Interfund Transfers (Out)		(95,500)	(95,500)
Total Other Financing Sources (Uses)	95,500	(95,500)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	20,092	(79,398)	(59,306)
Fund Balance--April 1, 2005	471,758	214,241	685,999
Fund Balance--March 31, 2006	\$ 491,850	\$ 134,843	\$ 626,693
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses			\$ (59,306)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.			131,037
Long-term revenues are recorded in the Statement of Activities when the revenue is earned; they are not reported in the funds if collected after 60 days of year end.			(5,545)
Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt).			6,000
Change in Net Assets of Governmental Activities			\$ 72,186

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**March 31, 2006**

**EXHIBIT E**

	<b>ENTERPRISE FUND</b>
	<hr/>
<b><u>ASSETS</u></b>	<hr/>
Current Assets	
Cash and Cash Equivalents	\$ 935,325
Delinquent Special Assessments Receivable	7,451
Due From Other Units of Government	<hr/> 5,340
Total Current Assets	<hr/> 948,116
Noncurrent Assets	
Special Assessments	342,262
Capital Assets--Net of Accumulated Depreciation	<hr/> 1,311,000
Total Noncurrent Assets	<hr/> 1,653,262
Total Assets	<hr/> <hr/> \$ 2,601,378
<b><u>LIABILITIES</u></b>	
Current Liabilities	
Due to Other Funds	<hr/> \$ 14,688
Total Current Liabilities	<hr/> 14,688
Noncurrent Liabilities	
Bonds Payable--Due Within One Year	100,000
Bonds Payable--Due in More Than One Year	<hr/> 800,000
Total Noncurrent Liabilities	<hr/> 900,000
Total Liabilities	<hr/> 914,688
<b><u>NET ASSETS</u></b>	
Invested in Capital Assets--Net of Related Debt	411,000
Unrestricted	<hr/> 1,275,690
Total Net Assets	<hr/> <hr/> \$ 1,686,690

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2006**

**EXHIBIT F**

	<b>ENTERPRISE FUND</b>
	<u>Sewer</u>
Operating Revenues	
Charge for Services	<u>\$ 80,560</u>
Total Operating Revenues	<u>80,560</u>
Operating Expenses	
Operating expenses	71,208
Depreciation	<u>34,500</u>
Total Operating Expenses	<u>105,708</u>
Net Operating Income (Loss)	<u>(25,148)</u>
Nonoperating Revenues (Expenses)	
Interest From Special Assessments	27,967
Interest Income	28,666
Interest Expense	<u>(55,575)</u>
Total Nonoperating Revenues (Expenses)	<u>1,058</u>
Net Income (Loss)/Change in Net Assets	<u>(24,090)</u>
Net Assets--April 1, 2005	<u>1,710,780</u>
Net Assets--March 31, 2006	<u><u>\$ 1,686,690</u></u>

**The Notes to Financial Statements are an integral part of this statement.**



**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2006**

**EXHIBIT G**

	<b><u>ENTERPRISE FUNDS</u></b>
	<u>Sewer</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 78,213
Cash Payments to Employees for Services and Benefits	(14,040)
Cash Payments to Suppliers for Goods and Services	<u>(57,168)</u>
Net Cash Provided by Operating Activities	<u>7,005</u>
Cash Flows From Noncapital Financing Activities	
Due to Other Funds	<u>948</u>
Net Cash Provided by Capital and Related Financing Activities	<u>948</u>
Cash Flows From Capital and Related Financing Activities	
Special Assessments	100,460
Reduction of Long-Term Debt	(75,000)
Interest Paid on Capital Financing	<u>(55,575)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(30,115)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	28,666
Sale of Investments	<u>645,945</u>
Net Cash Provided by Investing Activities	<u>674,611</u>
Net Increase (Decrease) in Cash and Cash Equivalents	652,449
Cash and Cash Equivalents--Beginning of Year	<u>282,876</u>
Cash and Cash Equivalents--End of Year	<u><u>\$ 935,325</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (25,148)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	34,500
Decrease (Increase) in Accounts Receivable	<u>(2,347)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 7,005</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
March 31, 2006**

**EXHIBIT H**

**AGENCY  
FUNDS**

**ASSETS**

Cash	<u>\$ 8,742</u>
Total Assets	<u><u>\$ 8,742</u></u>

**LIABILITIES**

Liabilities	
Due to County	\$ 307
Due to Other Funds	<u>8,435</u>
Total Liabilities	<u><u>\$ 8,742</u></u>

**The Notes to the Financial Statements are an integral part of this statement.**

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Howard Township is located in Cass County and provides services to its residents in many areas including fire protection, community enrichment and development, and human services. Howard Township is a general law township governed by a seven-member board elected by the citizens of Howard Township. The township board consists of the supervisor, clerk, treasurer and four trustees.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

The following entities are not included in the township's financial statements but do represent an ongoing financial interest or responsibility:

#### JOINT VENTURE

Southwestern Michigan Community Ambulance Service--Howard Township, in conjunction with five other local units of government (City of Buchanan, City of Niles, Township of Buchanan, Township of Niles, and Township of Bertrand) have entered into an agreement to create the Southwestern Michigan Community Ambulance Service. The joint ambulance board is composed of six members, of which each unit appoints one member. The joint ambulance administrative board prepares an annual operating budget, which is approved by a simple majority and submitted to the participating municipalities for appropriation. If there is a deficit and the budget stabilization fund is exhausted, each participating municipality will be requested to make an additional voluntary contribution to make up the deficit. Howard Township's financial responsibility is to special assess, on an annual basis, \$10 for each parcel of property in the township. For the year ended March 31, 2006, the township's special assessment was \$36,972. A separate audit is conducted on the Southwestern Michigan Community Ambulance Service.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the township.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the township's policy to use restricted resources first, then unrestricted resources as they are needed.

The township reports the following major governmental funds:

The General Fund is the township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The township reports the following major proprietary funds:

Sewer Fund accounts for the sewer operations of the township.

Additionally, the township reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The township has elected to consistently apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the Water Fund relates to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Bank Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year, are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Governmental Funds</u>	<u>Water</u>
Land Improvements	15 to 30 years	
Building and Building Improvements	20 to 40 years	
Vehicles	3 to 10 years	
Equipment	3 to 10 years	
Sewer System		50 years

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

#### Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgets and Budgetary Accounting

Budgets are adopted by the township board for the General Fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The township board monitors and amends the budget as necessary. Unexpended appropriations lapse at year end. The budget has been adopted on an activity basis. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. The budget adopted does not comply with all requirements established by Public Act 2 of 1968, as amended.

##### Excess of Expenditures over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the legislative body to adopt a General Appropriations Act for the budget of the General Fund and each Special Revenue Fund. The Act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The township's budget policy provides for the board to adopt and control the General Fund and Special Revenue Funds to the activity level. During the year ended March 31, 2006, expenditures were incurred in excess of amounts appropriated for in the following funds and activities.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
Capital Outlay	\$ 176,929	\$ 185,977	\$ (9,048)
Improvement Capital			
Transfers (Out)		95,500	(95,500)
Building			
Public Safety	8,000	27,397	(19,397)

During the year ended March 31, 2006, budgets were not adopted for the following Special Revenue Funds:

Liquor Law Enforcement  
Street Light



# HOWARD TOWNSHIP--CASS COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Howard Township Board has designated one bank for the deposit of township funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The township's deposits and investment policy are in accordance with statutory authority.

At year end, the township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 561,824</u>	<u>\$ 935,325</u>	<u>\$ 8,742</u>	<u>\$1,505,891</u>
Total	<u><u>\$ 561,824</u></u>	<u><u>\$ 935,325</u></u>	<u><u>\$ 8,742</u></u>	<u><u>\$1,505,891</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$1,505,391
Petty Cash and Cash on Hand	<u>500</u>
Total	<u><u>\$1,505,891</u></u>

The bank balance of the primary government's deposits is \$1,752,660, of which \$100,000 is covered by Federal depository insurance.

## HOWARD TOWNSHIP--CASS COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE D--PROPERTY TAXES/SPECIAL ASSESSMENTS

##### Property Taxes

The township property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property located in the township as of the preceding December 31<sup>st</sup>. It is the township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of township operations. Payment from the county for the 2005 delinquent taxes, which it purchased subsequent to March 31<sup>st</sup>, is recorded as delinquent taxes receivable in the General Fund.

The 2005 taxable value of Howard Township amounted to \$143,434,758, on which ad valorem taxes of .7817 mills were levied for township operating purposes. The 2005 current tax levy raised \$112,123 for township operating and is recorded as revenue on township records in the General Fund for the fiscal year ended March 31, 2006.

##### Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund of \$12,057 consists of uncollected real property taxes levied December 1, 2005, which have not been collected at March 31, 2006.

##### Special Assessments

The special assessments receivable, as of March 31, 2006, consist of \$11,089 for the Tiara Trails Fund (special revenue) and \$342,261 for the Sewer Fund (proprietary fund). Each were created when the township and the residents in the applicable assessment districts agreed to the special assessments.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Tiara Trails Fund's special assessment receivable of \$11,089 is offset by deferred revenue.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The amounts of interfund receivables and payables between funds are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 27,328	Sewer	\$14,688
		Nonmajor Governmental	4,205
		Agency Funds	8,435
			<u>8,435</u>
Total Primary Government	<u>\$ 27,328</u>		<u>\$27,328</u>

The 2006 operating transfers from Exhibits D can be summarized as follows:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
General	<u>\$95,500</u>	Nonmajor Funds	<u>\$ 95,500</u>
Total	<u>\$95,500</u>		<u>\$ 95,500</u>

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Capital asset activity of the township for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance 03/31/05</u>	<u>Restatement to Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 03/31/06</u>
Capital Assets Not Being Depreciated					
Land	\$ 90,850				\$ 90,850
Subtotal	90,850	\$ -	\$ -	\$ -	90,850
Capital Assets Being Depreciated					
Land Improvements	200,112	(2,497)			197,615
Buildings and Building Improvements	254,827	320			255,147
Equipment	648,001	(179,088)	45,977	7,633	507,257
Vehicles	533,844	(750)	140,000		673,094
Subtotal	1,636,784	(182,015)	185,977	7,633	1,633,113
Less Accumulated Depreciation for					
Land Improvements	100,857	(10,588)	5,528		95,797
Buildings and Building Improvements	108,174	(281)	4,357		112,250
Equipment	570,980	(268,930)	25,520	7,633	319,937
Vehicles	518,086	(17,786)	19,535		519,835
Subtotal	1,298,097	(297,585)	54,940	7,633	1,047,819
Net Capital Assets Being Depreciated	338,687	115,570	131,037	-	585,294
Governmental Activities Capital Total					
Capital Assets--Net of Depreciation	<u>\$ 429,537</u>	<u>\$ 115,570</u>	<u>\$ 131,037</u>	<u>\$ -</u>	<u>\$ 676,144</u>

The restatement to beginning balance amounts is the result of the correction to the beginning asset balances which did not include some assets and had incorrect depreciation applied to other assets. See Note K for the effect on the township's net assets at March 31, 2005.

The depreciation expense for 2006 was \$54,940.

HOWARD TOWNSHIP--CASS COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Sewer System	<u>\$ 1,725,000</u>	<u>          </u>	<u>          </u>	<u>\$ 1,725,000</u>
Subtotal	<u>1,725,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,725,000</u>
Less Accumulated Depreciation for				
Sewer System	<u>379,500</u>	<u>34,500</u>	<u>          </u>	<u>414,000</u>
Subtotal	<u>379,500</u>	<u>34,500</u>	<u>-</u>	<u>414,000</u>
Net Capital Assets Being Depreciated	<u>1,345,500</u>	<u>(34,500)</u>	<u>-</u>	<u>1,311,000</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u><u>\$ 1,345,500</u></u>	<u><u>\$ (34,500)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,311,000</u></u>

The depreciation expense was \$34,500 during the year.

Depreciation expense was charged to programs of the primary government, as follows:

Governmental Activities	
General Government	\$ 7,101
Public Safety	38,472
Recreational and Cultural	<u>9,367</u>
Total Governmental Activities	<u><u>\$54,940</u></u>
Business-Type Activities	
Water	<u>\$34,500</u>
Total Business-Type Activities	<u><u>\$34,500</u></u>

# HOWARD TOWNSHIP--CASS COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT

The individual long-term debt and other general long-term obligations of Howard Township, and the changes therein, may be summarized as follows:

	<u>Balance 04/01/04</u>	<u>Additions (Reductions)</u>	<u>Balance 03/31/05</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>				
Howard Township promissory note for the Tiarra Trails Paving Project in the amount \$60,000, maturing serially through 2008 in annual installments of \$6,000 and at an interest rate of 5.0%.	<u>\$ 18,000</u>	<u>\$ (6,000)</u>	<u>\$ 12,000</u>	<u>\$ 6,000</u>
Total Governmental Activities	<u>\$ 18,000</u>	<u>\$ (6,000)</u>	<u>\$ 12,000</u>	<u>\$ 6,000</u>
<u>Business-Type Activities</u>				
Howard Township Sewer Fund Contractual Bonds, issued by Cass County through Munipal Bond Investors Assurance Corporation (MBIA), \$1,725,000 maturing serially through 2014 in amounts ranging from \$25,000 to \$100,000, and at an interest rate of 6.0%.	<u>\$ 975,000</u>	<u>\$ (75,000)</u>	<u>\$ 900,000</u>	<u>\$100,000</u>
Total Business-Type Activities	<u>\$975,000</u>	<u>\$ (75,000)</u>	<u>\$ 900,000</u>	<u>\$100,000</u>

The annual interest and principal requirements of Howard Township's long-term borrowing is summarized as follows:

Date of Issue: October 27, 1998

Amount: \$60,000

Purpose: Tiara Trails Paving Project

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity March 15</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.00%	2007	\$ 6,000	\$ 600	\$ 6,600
	2008	<u>6,000</u>	<u>300</u>	<u>6,300</u>
Total		<u>\$12,000</u>	<u>\$ 900</u>	<u>\$12,900</u>

# HOWARD TOWNSHIP--CASS COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

Date of Issue: July 6, 1994

Amount: \$1,725,000

Purpose: Sewer Bonds

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity December 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
6.0%	2006	\$ 100,000	\$ 54,000	\$ 154,000
	2007	100,000	48,000	148,000
	2008	100,000	42,000	142,000
	2009	100,000	36,000	136,000
	2010	100,000	30,000	130,000
Thereafter	2011-2014	400,000	60,000	460,000
		<u>\$ 900,000</u>	<u>\$270,000</u>	<u>\$ 1,170,000</u>

### NOTE H--EMPLOYEE PENSION PLAN

#### Description of Plan and Plan Assets

As of April 1, 2002, Howard Township participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. MERS provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. There is one group of employees classified as general. The service requirement for general employees is computed using credited service at the time of termination of membership multiplied by the sum of 1.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

# HOWARD TOWNSHIP--CASS COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEE PENSION PLAN (Continued)

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Howard Township Board, which requires members to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. During 2005, the employee contributions totaled \$0. The township is required to contribute at an actuarially determined rate which was 8.16% of the annual payroll based on the 2003 actuarial valuation beginning on January 1, 2005.

#### Annual Pension Cost

During the calendar year ended December 31, 2005, the township's contributions were \$4,882 in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The township paid the required contribution. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members' retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$9,543	100%	\$0
2004	4,252	100%	0
2005	4,882	100%	0

#### Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Overfunded (Unfunded) AAL (UAAL) (1)-(2)</u>	<u>Funded Ratio (1)/(2)</u>	<u>Covered Payroll</u>
2003	\$ 12,241	\$ 9,181	\$ 3,060	133%	\$38,748
2004	17,674	16,077	1,597	110%	42,729
2005	24,039	24,031	8	100%	57,686



# HOWARD TOWNSHIP--CASS COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--RISK MANAGEMENT

Howard Township is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The township participates in the Michigan Townships' Participating Plan for the following various policies: general liability, property, vehicle and fire. The township has insurance with the Accident Fund Company for workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

### NOTE J--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The township maintains an enterprise fund that provides sewer services. Segment information for the year ended March 31, 2006 was as follows:

	<u>Water</u>
Operating Revenues	\$ 80,560
Operating Income (Loss)	(25,148)
Net Income (Loss)	(24,090)
Sewer System Less	
Accumulated Depreciation	1,311,000
Net Working Capital	948,116
Long-Term Debt	900,000
Total Assets	2,601,377
Total Equity	1,686,690

### NOTE K--CORRECTION OF AN ERROR--NET ASSETS

The total net assets were restated as the result of a beginning capital asset balance correction of the accumulated depreciation. See Note F for more details on the correction to the respective capital asset accounts.

	<u>Original</u> <u>03/31/05</u>	<u>Correction</u>	<u>Restated</u> <u>03/31/05</u>
Net Assets			
Investment in Capital Assets			
Net of Related Debt	\$ 411,537	\$ 115,570	\$ 527,107
Restricted	230,875		230,875
Unrestricted	481,758		481,758
Total Net Assets	<u>\$1,124,170</u>	<u>\$ 115,570</u>	<u>\$1,239,740</u>

**HOWARD TOWNSHIP--CASS COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Fiscal Year Ended March 31, 2006**

**EXHIBIT I**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 228,275	\$ 249,075	\$ 169,791	\$ (79,284)
Licenses and Permits	24,100	27,100	24,120	(2,980)
State Grants	450,560	450,560	441,623	(8,937)
Charges for Services	38,000	42,450	7,462	(34,988)
Fines and Forfeits	2,000	2,300	2,763	463
Interest and Rentals	13,000	18,000	25,508	7,508
Other Revenues	13,200	51,200	27,092	(24,108)
Total Revenue	769,135	840,685	698,359	(142,326)
Expenditures				
General Government	348,437	366,709	278,792	87,917
Public Safety	258,042	246,982	209,535	37,447
Public Works	64,075	67,335	42,961	24,374
Community and Economic Development	10,542	13,012	11,649	1,363
Recreation and Cultural	36,492	45,992	44,853	1,139
Capital Outlay	26,679	176,929	185,977	(9,048)
Total Expenditures	744,267	916,959	773,767	143,192
Excess of Revenues Over (Under) Expenditures	24,868	(76,274)	(75,408)	866
Other Financing Sources (Uses)				
Operating Transfers In	20,000	155,500	95,500	(60,000)
Total Other Financing Sources (Uses)	20,000	155,500	95,500	(60,000)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,868	79,226	20,092	(59,134)
Fund Balance--April 1, 2005	350,000	350,000	471,758	121,758
Fund Balance--March 31, 2006	\$ 394,868	\$ 429,226	\$ 491,850	\$ 62,624

**The Notes to the Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
March 31, 2006**

**EXHIBIT J**

**SPECIAL REVENUE FUNDS**

	Tiara Trails	Liquor Law	Street Lights	Improvement Capital	Building Department Permit	Total
<b><u>ASSETS</u></b>						
Bank Deposits	\$ 2,552			\$ 94,140	\$ 41,621	\$ 138,313
Special Assessments Receivable	11,089					11,089
Delinquent Assessments Receivable	679		\$ 999			1,678
Total Assets	\$ 14,320	\$ -	\$ 999	\$ 94,140	\$ 41,621	\$ 151,080
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
Liabilities						
Accounts Payable					\$ 943	\$ 943
Due to Other Funds			\$ 999		3,206	4,205
Deferred Revenue	\$ 11,089					11,089
Total Liabilities	11,089	\$ -	999	\$ -	4,149	16,237
Fund Balances						
Reserved for						
Tiara Trails	3,231					3,231
Improvement Capital				94,140		94,140
Building Department Permit					37,472	37,472
Total Liabilities and Fund Balance	\$ 14,320	\$ -	\$ 999	\$ 94,140	\$ 41,621	\$ 151,080

**HOWARD TOWNSHIP--CASS COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended March 31, 2006**

**EXHIBIT K**

	<b>SPECIAL REVENUE FUNDS</b>					
	Tiara Trails	Liquor Law	Street Lights	Improvement Capital	Building Department Permit	Total
Revenues						
Licenses and Permits					\$37,071	\$ 37,071
State Grants		\$ 978				978
Interest and Rents	\$1,100			\$ 4,295	1,046	6,441
Other Revenue	5,545		\$6,313	1,344		13,202
Total Revenues	6,645	978	6,313	5,639	38,117	57,692
Expenditures						
Public Safety		978			27,397	28,375
Public Works			6,313			6,313
Debt Service						
Principal	6,000					6,000
Interest	902					902
Total Expenditures	6,902	978	6,313	-	27,397	41,590
Excess of Revenues Over (Under) Expenditures	(257)	-	-	5,639	10,720	16,102
Other Financing Sources (Uses)						
Operating Transfers (Out)				(95,500)		(95,500)
Total Other Financing Sources (Uses)	-	-	-	(95,500)	-	(95,500)
Excess of Revenues Over (Under) Expenditures	(257)	-	-	(89,861)	10,720	(79,398)
Fund Balance--April 1, 2005	3,488	-	-	184,001	26,752	214,241
Fund Balance--March 31, 2006	\$3,231	\$ -	\$ -	\$ 94,140	\$37,472	\$ 134,843

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**March 31, 2006**

**EXHIBIT L**

	<b><u>AGENCY FUNDS</u></b>		
	Trust and Agency	Tax Collection	Total
<b><u>ASSETS</u></b>			
Cash	\$ 369	\$ 8,373	\$ 8,742
Total Assets	<u>\$ 369</u>	<u>\$ 8,373</u>	<u>\$ 8,742</u>
<b><u>LIABILITIES</u></b>			
Liabilities			
Due to County	\$ 307		\$ 307
Due to Other Funds	62	\$ 8,373	8,435
Total Liabilities	<u>\$ 369</u>	<u>\$ 8,373</u>	<u>\$ 8,742</u>

**The Notes to the Financial Statements are an integral part of this statement.**

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING USES**  
**BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended March 31, 2006**

**EXHIBIT M**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Taxes</b>				
Current Property Taxes	\$108,775	\$ 108,775	\$ 101,969	\$ (6,806)
Delinquent Property Taxes	13,600	18,600	8,332	(10,268)
Trailer Park Taxes	2,200	2,200	368	(1,832)
Homestead Denials	4,000	18,000	16,338	(1,662)
Penalties/Interest	10,500	10,500	2	(10,498)
Administration Fees	89,200	91,000	42,782	(48,218)
<b>Total Taxes and Penalties</b>	<b>228,275</b>	<b>249,075</b>	<b>169,791</b>	<b>(79,284)</b>
<b>Licenses and Permits</b>				
Junk Permits	100	100	100	-
Dog Licenses	500	500	191	(309)
Land Variances	2,000	3,500	3,950	450
Land Divisions	3,500	3,500	2,075	(1,425)
Private Road Applications	500	1,000	750	(250)
Site Plan Reviews	1,500	2,500	1,840	(660)
Cable Franchise Fees	16,000	16,000	15,214	(786)
<b>Total Licenses and Permits</b>	<b>24,100</b>	<b>27,100</b>	<b>24,120</b>	<b>(2,980)</b>
<b>State Grants</b>				
Liquor Law	1,000	1,000	-	(1,000)
Metro Act	8,000	8,000	4,812	(3,188)
State Revenue Sharing	441,560	441,560	436,811	(4,749)
<b>Total State Grants</b>	<b>450,560</b>	<b>450,560</b>	<b>441,623</b>	<b>(8,937)</b>
<b>Charges for Services</b>				
Copies	35,000	35,000	2,554	(32,446)
Fire Runs	3,000	3,250	2,750	(500)
Elections	-	4,200	2,158	(2,042)
<b>Total Charges for Services</b>	<b>38,000</b>	<b>42,450</b>	<b>7,462</b>	<b>(34,988)</b>
<b>Fines and Forfeits</b>				
Ordinance Fines	1,000	1,000	49	(951)
Enforcement Fines	1,000	1,300	2,714	1,414
<b>Total Fines and Forfeits</b>	<b>2,000</b>	<b>2,300</b>	<b>2,763</b>	<b>463</b>
<b>Interest and Rents</b>				
Interest Earned	7,000	12,000	20,108	8,108
Hall Rental	4,500	4,500	4,150	(350)
Park Rental	1,500	1,500	1,250	(250)
<b>Total Interest and Rents</b>	<b>13,000</b>	<b>18,000</b>	<b>25,508</b>	<b>7,508</b>
<b>Other Revenues</b>				
Donations	-	6,000	10,874	4,874
Building, Electrical, Mechanical, Plumbing Reimbursements	-	15,000	13,299	(1,701)
Refunds and Reimbursements	4,600	21,600	2,919	(18,681)
Special Assessments	8,600	8,600	-	(8,600)
<b>Total Other Revenues</b>	<b>13,200</b>	<b>51,200</b>	<b>27,092</b>	<b>(24,108)</b>
<b>Total Revenues</b>	<b>769,135</b>	<b>840,685</b>	<b>698,359</b>	<b>(142,789)</b>
<b>Other Financing Sources</b>				
Operating Transfers In	20,000	155,500	95,500	(60,000)
<b>Total Other Financing Sources</b>	<b>20,000</b>	<b>155,500</b>	<b>95,500</b>	<b>(60,000)</b>
<b>Total Revenues and Other Financing Sources</b>	<b>\$789,135</b>	<b>\$ 996,185</b>	<b>\$ 793,859</b>	<b>\$ (202,326)</b>

**HOWARD TOWNSHIP--CASS COUNTY**  
**STATEMENT OF EXPENDITURES BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended March 31, 2006**

**EXHIBIT N**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Township Board	\$ 15,338	\$ 11,988	\$ 11,802	\$ 186
Supervisor	20,039	19,181	19,030	151
Elections	8,005	9,005	3,890	5,115
Audit	5,000	5,000	4,770	230
Assessor	25,400	25,400	25,048	352
Attorney	10,000	33,500	31,386	2,114
Clerk	77,666	69,366	68,872	494
Board of Review	1,291	1,291	980	311
Treasurer	61,992	61,742	43,958	17,784
Building and Grounds	123,706	130,236	69,056	61,180
Total General Government	348,437	366,709	278,792	87,917
Public Safety				
Police Services	177,371	162,371	127,690	34,681
Ordinance Enforcement	-	1,140	405	735
Fire Department	80,671	83,471	81,440	2,031
Total Public Safety	258,042	246,982	209,535	37,447
Public Works				
Roads	49,075	54,075	38,021	16,054
Street Lights	10,000	10,000	1,683	8,317
Garbage Collection	5,000	3,260	3,257	3
Total Public Works	64,075	67,335	42,961	24,374
Community and Economic Development				
Zoning Administrator	7,290	9,665	8,933	732
Zoning Board of Appeals	3,252	3,347	2,716	631
Community Promotion	-	-	-	-
Total Community and Economic Development	10,542	13,012	11,649	1,363
Recreational and Cultural				
Parks	36,492	45,992	44,853	1,139
Total Recreational and Cultural	36,492	45,992	44,853	1,139
Capital Outlay	26,679	176,929	185,977	(9,048)
Total Expenditures	\$ 744,267	\$ 916,959	\$ 773,767	\$ 143,192



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

July 7, 2006

Howard Township Board  
1345 Barron Lake Road  
Niles, Michigan 49120

RE: Report on Internal Control over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard Township, Cass County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise Howard Township's basic financial statements and have issued our report thereon dated July 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Howard Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Howard Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to



be material weaknesses. We consider all of the reportable conditions described above to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Howard Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we did note other instances of noncompliance described in the accompanying comments and recommendations.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## HOWARD TOWNSHIP--CASS COUNTY

### COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Howard Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

#### MATERIAL WEAKNESSES

##### Clerk--General Ledger

*Finding 05-1*

*Condition:* Our examination indicates that the township's general ledger had numerous errors in posting for the General Fund and Street Light Fund.

*Criteria:* The general ledger is the gathering place for the township's financial data. Properly maintained, it is a valuable tool of management. Entries in the general ledger are made from: (1) the receipts register; (2) disbursements register; and (3) the journal entries. We found the following weaknesses with the current accounting system:

1. The General Fund and Street Light Fund were out of balance (debits did not equal credits).
2. Cash transfers to the General Fund from other funds for paying bills or distributing taxes were incorrectly posted to transfers in and out.
3. Tax administrative fee revenues were not properly classified.
4. The street light expense was posted to transfer out instead of its own expense activity.
5. Voided checks were posted to charges for services.

Failure to post the accounting records on a timely basis may result in the following:

1. The financial condition of the township may not be readily determined.
2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

*Recommendation:* We recommend that the township establish monthly procedures to assure that all transactions are posted and that the general ledger is in balance. The monthly general ledger should be available within ten (10) days of the close of the month.

HOWARD TOWNSHIP--CASS COUNTY  
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Clerk, Treasurer--Posting of Cash and Investment Balances

*Finding 05-2*

*Condition:* While the total cash of the township is reconciled to the township bank accounts, the amounts posted to the general ledger are not properly itemized between the cash and investment account balances.

*Criteria:* According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, the balance of cash accounts should be posted to account 001 and investments in securities should be posted to account 017. Bank reconciliations are to reconcile with each of these accounts and not to the balance of the accounts as a whole.

*Recommendation:* We recommend that the township begin reconciling the cash and investment accounts to each individual account posted in the township's general ledger.

Treasurer--Accruals

*Condition:* Accruals (accounts receivable) were not recorded for the enterprise fund or any of the governmental funds.

*Criteria:* Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

*Modified Accrual Basis of Accounting:* Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

*Recommendation:* We recommend that the township record accruals. The accrual balances should be reconciled to subsidiary records to support the balances in the respective accounts.

Clerk--Accounts Payable/Numeric Sequence of Checks

*Finding 05-3*

*Condition:* Instead of recording bills paid in the 2006/2007 fiscal year for the 2005/2006 fiscal year as an accounts payable liability, the township backdated the checks to March 31<sup>st</sup>. By recording the bills with this method, the numeric sequence of the checks is broken and cash and accounts payable become understated in the financial statements.

HOWARD TOWNSHIP--CASS COUNTY  
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

*Criteria:* According the Uniform Chart of Accounts issued by the Michigan Department of Treasury, disbursements are to be numerically controlled. Accounts payable is used to record amounts on open accounts owing to private persons, firms, corporations, the state, or other organizations for goods and services received and is normally entered into the township's general ledger with a journal entry.

*Recommendation:* We recommend the township discontinue the practice back dating checks and begin using journal entries to record accounts payable.

Escrows Payable

*Finding 05-4*

*Condition:* The township recorded escrows paid to the township as revenues rather than a liability to be paid back to the individuals upon completion of the escrow requirements set forth by the township.

*Criteria:* Escrows payable is a liability line-item used to record money deposited with the township by contractors or other firms or individuals to guarantee the performance of a certain act or acts.

*Recommendation:* We recommend that the township discontinue the practice of recording escrows as revenue and establish a liability line-item to account for the escrow payments received by the township. A subsidiary listing of the escrows should be maintained and monitored for accuracy and timeliness of the individuals performing the acts required by the township.

Clerk--CapitalAssets

*Finding 05-5*

*Condition:* The township does not maintain adequate internal controls for capital assets.

*Criteria:* It is the responsibility of the township to update a capital asset listing for additions and deletions. Assets purchased during the year, that are recorded as capital outlay, should equal the additions to the capital asset records; and disposals should equal the reductions to the capital asset records. Local units must consider if a gain or loss has occurred when selling capital assets. The amount is recorded in the general ledger.

*Recommendation:* We recommend that the township develop a property management system that includes the following steps:

1. Capital assets that meet the township's capitalization policy should be included on the capital asset listing and be listed as capital outlay on the general ledger of the township.
2. Capital outlay/assets that are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as expenditures.

HOWARD TOWNSHIP--CASS COUNTY  
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

3. A listing of disposed capital assets must be maintained for each fiscal year.
4. A periodic inventory (at least annually) must be made to ensure that all recorded items are on hand, and that all items on hand have been properly recorded.

Payroll Withholding Liability Accounts

*Finding 05-6*

*Condition:* We found that the township is not monitoring the liability accounts used to record the amounts due to the State and Federal government for payroll withholdings.

*Criteria:* When the payroll is processed the employee's portion of the State and Federal withholding is recorded in the liability accounts, "Due to State and Due to Federal." At the time of payment to the State or Internal Revenue Service, the employee's portion of the taxes due should be removed from the liability line-item zeroing the balance of the accounts.

*Recommendation:* We recommend the township begin monitoring the payroll withholding liability line-items to verify the accuracy of the postings and that the accounts are reaching a zero balance after payments are made.

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Township Board--Special Revenue Fund Budget Adoption

*Finding 05-7*

*Condition:* Budgets were not adopted for the Liquor Law Enforcement Fund and the Street Light Fund.

*Criteria:* MCL 141.436 states: "The legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, intragovernmental service, enterprise, public improvement or building and site, for which the legislative body may pass a special appropriation act."

*Directive:* We direct budgets for all required funds be adopted prior to the start of the new fiscal year. The budget should include all items required by law and Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

Township Board--Expenditures in Excess of Appropriations

*Finding 05-8*

*Condition:* Our examination of procedures used by the township to adopt and maintain operating budgets for the township's budgetary funds revealed the following instances of noncompliance with provisions of Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

HOWARD TOWNSHIP--CASS COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

The township's 2005/2006 General Appropriations Act (budget) provided for expenditures of the General Fund and the Special Revenue Funds to be controlled at the activity level by the township. During the fiscal year ended March 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and the Special Revenue Funds, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
Capital Outlay	\$ 176,929	\$ 185,977	\$ (9,048)
Improvement Capital			
Transfers (Out)		95,500	(95,500)
Building			
Public Safety	8,000	27,397	(19,397)

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

*Directive:* We direct that the township develop budgetary control procedures for the General Fund and the Special Revenue Funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.